

BUDGET HEARING

**THE FISCAL YEAR 2011 BUDGET REQUEST OF THE
OFFICE OF REVENUE ANALYSIS (ORA) OF THE
OFFICE OF THE CHIEF FINANCIAL OFFICER
(OCFO)**

**Before the
Committee on Finance and Revenue
Council of the District of Columbia**

The Honorable Jack Evans, Chairman

**April 28, 2010, 10:00 a.m.
John A. Wilson Building, Council Chamber**



**Testimony of
Fitzroy Lee
Deputy Chief Financial Officer
Office of Revenue Analysis**

**Natwar M. Gandhi
Chief Financial Officer
Government of the District of Columbia**

Good morning Chairman Evans and members of the Finance and Revenue committee. I am Fitzroy Lee, Deputy Chief Financial Officer for Revenue Analysis (ORA) and the District's Chief Economist. I am pleased to appear before you today to testify on the Fiscal Year 2011 budget request for this Office.

The FY 2011 budget requested for ORA builds upon the data analysis infrastructure that ORA has created over the years to provide policymakers and stakeholders with high quality fiscal and economic analyses to inform decision-making and policy discussions. In FY 2011, ORA will continue to improve its ability to: 1) generate quarterly revenue estimates that enable the District to develop and maintain an annual budget and financial plan that avoids a deficit; 2) prepare fiscal impact statements that analyze the financial impact of proposed policy changes on the District's expenditures and revenues to ensure that the budget and financial plan remains in balance; 3) issue annual and monthly fiscal and economic reports on a timely basis; and 4) conduct research and analyses on a wide range of fiscal and economic issues at the request of the Mayor and Council or as directed by the Chief Financial Officer.

At this point I would like to mention a few of the projects and new initiatives that ORA plans to undertake in FY 2011 as it continues to build its capacity to deliver the forecasts and analyses that policymakers and stakeholders rely on to aid decision-making and policy discussions.

First, ORA has been developing and testing indexes of coincident and leading economic indicators and plans to start publishing these on a monthly basis in FY 2011. An index of coincident indicators combines several District economic indicators into a single measure that captures the state of the

District's economy in a given period. An index of leading indicators is a measure that forecasts where the economy is likely to be in the future and can serve as an early warning for the District's economy.

Second, ORA plans to deploy a microsimulation model for forecasting, as well as for estimating, the revenue impact of legislative changes to the personal income tax. A micro-simulation model will enable ORA to incorporate more refined assumptions, (e.g., concerning the realization of capital gains) in its personal income tax forecasts.

Third, ORA plans to change the way the products that ORA produces are presented on the OCFO's website. In addition to making the information easier to find, the various products now presented on the web only in PDF format will be reformatted and presented in a way that is much more user-friendly and useful to users. As part of the website re-design, ORA plans to reformat the web-accessible fiscal impact statements so that the text in the body of the fiscal impact statements (FIS) is searchable. This will go a long way to meet a request that many users of the on-line FIS repository have long requested.

The FY 2011 budget request for the Office of Revenue Analysis is \$3.56 million (Attachment 2) and 27 FTEs. Compared to the FY 2010 budget, it represents a 2.2 percent increase. This program includes the budget for both the Office of Revenue Analysis and the Office of Economic Development Finance. At present, of the 26 FTEs, 21 are assigned to the Office of Revenue Analysis and 5 are attached to the Office of Economic Development Finance (Attachments 3).

As expected, ORA will continue to deliver the high quality of service necessary to insure the fiscal stability of the District. We look forward to continuing our work with the Council and agencies of the District government to achieve this goal.

Chairman Evans, I thank you and the members of the committee for the opportunity to present testimony today. I will be pleased to address questions that you may have.

Attachment 1

Review of the Activities of the Office of Revenue Analysis

Prepares Fiscal Impact Statements. The *District of Columbia Home Rule Act of 1973* (Pub. L. no. 93-198) requires that all legislation submitted by the Council of the District of Columbia to the US Congress for review prior to enactment into law be accompanied by a fiscal impact statement (FIS) identifying an estimate of the costs that will be incurred by the District of Columbia as a result of enactment of the Act in each of the first four (4) fiscal years for which the Act is in effect. These estimates are accompanied by a statement of the scope of the legislation and the methodology for making the estimate.

Provides Periodic Reports on the Economic and Revenue Outlook with Accompanying Revenue Estimates. The Office of the Chief Financial Officer is further responsible for forecasting the Economic and Revenue Outlook and an accompanying set of Revenue Estimates for the District government. With respect to this activity, each quarter the OCFO issues the revenue estimate that is used to develop the Mayor's proposed budget for the next fiscal year (October 1 to September 30). The quarterly estimates may be revised as the new fiscal year begins and at regular intervals, afterward.

Carries out Special Studies. In addition to its Fiscal Impact Statement and Economic and Revenue Outlook activities, the Office of Revenue Analysis provides to the citizens of the District of Columbia a series of technical reports, all of which are subject to an extensive internal and external peer-review process prior to release and publication. These include: (1) *DC Economic Indicators*. Published monthly, the *Indicators* provide up to date detail on the performance of the District of Columbia with respect to the trends of the overall economy, revenues, and the sectors of labor, industry, office space and housing. (2) *Tax Rates and Tax Burdens: Washington Metropolitan Area*. Published annually, this report provides a comparison of the statutory rates of the District of Columbia *vis-à-vis* its five neighboring jurisdictions. It also provides comparative measures of household tax burden by type of tax and for different income levels. (3) *Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison*. Also an annual publication, the nationwide comparison report provides a compendium of statutory tax rate comparisons and estimates of the household burden of major taxes by income class of the District of Columbia *vis-à-vis* the largest city in each of the other 50 states. (4) *The Economic Report of the District of Columbia: A Fiscal Perspective*. ORA will publish this comprehensive report on the District of Columbia economy and its revenue system, annually, with a text that is accompanied by a set of Special Analyses and supplemental economic and demographic data trends. (5) *DC Tax Facts*. An important and widely used pocket-sized reference of District of Columbia tax collections provides descriptions of all the District of Columbia revenue (tax and non tax) sources, the history of major revenue changes since 1970, filing and payment dates, and the yield of each type of revenue utilized by the District of Columbia. (6) *Cash Reports*. Each month the ORA/OCFO publishes a report of cash collections by the District of Columbia government. The tracking of these cash flows is particularly important in order to have an ongoing check on the quarterly revenue estimates. (7) *Tax Expenditures*. The District of Columbia Code requires the CFO to prepare a *Tax Expenditure Budget* for Fiscal Year 2003 and biennially thereafter. "Tax expenditures" are revenue losses that arise from the provisions of the tax laws that reduce the tax liability of individuals, groups of individuals and/or institutions. ORA released its 2010 report in April 2010. (8) *Bills Subject to Appropriation Monitoring*. ORA has initiated a process of tracking the status of *Legislation Subject to Appropriation* so that the OCFO, City Council and Mayor may have an accurate picture at any one time of the status of legislation that has been approved by the Council but has yet to be funded. (9) *Economic Trend Report*. Every month the ORA publishes a report of most current economic information collected from independent sources. The tracking of these reports are instrumental in the analysis and formation of ORA's quarterly revenue estimates.

Attachment 2

| Office of Revenue Analysis Budget Request for FY 2011 | | | | | |
|---|--------------|--------------|-------------|---------------------------|------------|
| | | | | Difference of FY 10-FY 11 | |
| | FY 2009 | FY 2010 | FY 2011 | Dollar | Percentage |
| Personnel Services (PS) | \$ 3,233,775 | \$ 3,305,718 | \$3,247,130 | \$ (58,588) | -1.8 |
| Non-Personnel Services (NPS) | \$ 318,750 | \$ 173,771 | \$309,028 | \$ 135,257 | 77.8 |
| Total | \$ 3,552,525 | \$ 3,479,489 | \$3,556,158 | \$ 76,669 | 2.2 |

NPS does not include fixed costs.

